In the past decade (2000–10), the Belarusian economy grew at an annual rate of close to 8 percent, which was translated into a reduction in poverty from 47 percent at the beginning of the period to 5 percent in 2010. A favorable external environment, expressed in terms of trade gains, underpriced energy from the Russian Federation, and strong economic growth among Belarus’s main trading partners, supported economic growth.

In the past few years, however, growth has become increasingly dependent on domestic demand supported by expansionary monetary and fiscal policies at the expense of macrostability. The switch from external to domestic demand-driven growth, financed by large (mostly state-directed) lending to the economy, allowed Belarus to maintain high economic growth rates after 2005. However, the economic gains came at the expense of widening external imbalances; the current account balance shifted from a surplus of 1.4 percent of GDP in 2005 to a deficit of 15 percent of GDP in 2010. The growing domestic savings-investment gap was covered through external borrowings. Gross external debt over 2009–11 increased two and one-half times, exceeding 62 percent of GDP in 2011. Low foreign direct investment (FDI) and a low level of international reserves amplified the uncertainties about the sources of financing of the external balance. The growing external imbalances have put Belarus on an unsustainable growth path. It experienced two macroeconomic crises in three years: one a product of the global financial meltdown in 2008–09, and the other, in 2011, stemming from Belarus’s loose macroeconomic policies.

In late 2011, Belarus emerged from a currency and balance of payments crisis. Loose macroeconomic policies in (pre-election) 2010 and early 2011 created pressures on reserves and eventually led to the loss of control of the exchange rate and sharply accelerating inflation. Overall, the Belarusian rubel (BYR) lost close to 70 percent of its value relative to the US$ in 2011. Inflation soared to 109 percent in December 2011 (end-of-period). Most of the income gains of the last three years were lost and the poverty headcount ratio increased to 7.3 percent of population in 2011. As a result of policy measures undertaken in late 2011, including exchange rate unification and fiscal and monetary tightening, the macroeconomic situation has stabilized.

GDP growth decelerated from a double-digit level in the first six months of 2011 to 5.3 percent for a year and to 2.5 percent (year-on-year) in August 2012, due to a sharp contraction in investments in fixed capital and a slowing down of industrial output growth. Growth has become more export-driven and the external balance has improved as a result of a sharp devaluation, but more importantly, due to terms of trade improvements owing to the new energy deal with Russia (signed in November 2011). Preliminary data for the first six months of 2012 suggest a current account surplus of 1.7 percent of GDP compared to a deficit of 7.3 percent of GDP in the first part of 2011. The fiscal position remains strong, with the consolidated budget having been concluded with a 1.6 percent of GDP surplus in January–August 2012. Monthly inflation eased to 2.3 percent in December 2011, and stayed below 2 percent during the first seven months of 2012. In August, inflation went up by 2.3 percent, reaching 14.6 percent (eop) on the back of increases in residential utility tariffs and food prices.

Macroeconomic stability, however, continues to be fragile and significant risks remain. The lack of a consistent framework and a renewed focus on growth and wage targets for 2012 and

### Belarus

| Population, total (millions) | 9.46 |
| Life expectancy at birth, female (years) | 76.7 |
| Life expectancy at birth, male (years) | 64.7 |
| Poverty (% population below national poverty line) | 7.3 |
| GDP, current US$ (billions) | 54.6 |
| Real GDP growth (annual %) | 5.3 |
| Inflation, consumer prices (eop, %) | 108.7 |
| Consolidated budget balance (% of GDP) | 2.4 |
| Current account balance (% of GDP) | -10.6 |
| FDI, net inflows (% of GDP) | 7.2 |
| Gross External Debt (% of GDP) | 62.3 |
beyond raise uncertainty and entail significant risks. Imbalances could reemerge quickly if macroeconomic policies are loosened prematurely. These risks are exacerbated by significant external refinancing needs and uncertainties in the external environment related to the eurozone and Russia.

**CHALLENGES AHEAD**

Going forward, the growth model will have to rely on significant productivity gains driven by structural reforms in an environment of macroeconomic stability. Macroeconomic adjustment that effectively combats the sources of external imbalances in Belarus is a critical and necessary but insufficient condition for achieving sustainable economic growth in the medium term. The Belarusian economy is facing challenges beyond the macroeconomic issue of adequately financing its external imbalances: (1) how to reallocate labor and capital to high productivity segments of the economy; (2) how to restructure the state-owned enterprise sector; and (3) how to support the underdeveloped private and services sectors. By successfully overcoming these challenges, Belarus will revive competitive segments of the economy and discover untapped opportunities for growth. It will also diminish its economic dependence on underpriced energy from Russia and move up the value chain in global integration. With its valuable geographic location and an educated and disciplined labor force, Belarus can restructure its economy, diversify its exports, and increase the prosperity of its people. In parallel, social safety nets should be strengthened to better work as automatic stabilizers that protect the most vulnerable.

**Energy efficiency and security need to be rapidly improved.** A key tail wind to the economy—cheap energy prices from Russia—has eroded and is likely to evaporate completely over the next few years. Belarus made good use of the transition period to significantly increase its energy efficiency by two and one-half times since 1990, significantly better than Russia or Ukraine. However, Belarus is still two—times more energy intensive than Poland and three times more so than Germany. Efficiency levels could be improved through better demand management, including tariff adjustment and metering. Operational efficiencies on the supply side could also be achieved through targeted investments, adequate incentives, and private participation, where appropriate (through industry unbundling and the development of public-private partnerships). In addition, it is essential to diversify energy sources, making greater use of domestically available fuels, including renewables.

**Improved public sector efficiency is necessary to enable the needed reallocation of resources from the public to the private sector while safeguarding social cohesion.** Managing this structural transformation effectively is a key challenge and will require efficiency improvements in public spending so that (i) public transfers are better targeted and automatic stabilizers help to cushion the process; (ii) the quality of public services is improved even as funding levels decline; (iii) the system of subsidies to enterprises and the population are reformed; and (iv) a regional development strategy is adopted that promotes jobs and personal mobility while maintaining basic services to those unable to move. Belarus has preserved strong public administrative capacity that could be harnessed to cushion the impact on vulnerable households.

Finally, it is necessary to ensure that there is an active dialogue and consultation with stakeholders, including the private sector, on the reform program as it relates to the response to the current macroeconomic and structural challenges.

**THE WORLD BANK PROGRAM IN BELARUS**

The World Bank’s engagement in Belarus is currently focused on technical and advisory assistance and the implementation of five investment projects supported by the Bank’s loans. The projects help to deal with environmental issues, improve municipal services, and increase energy efficiency.
Belarus joined the World Bank in 1992. Since then, the Bank’s lending commitments in Belarus have totaled US$865 million for 12 projects, including US$525 million disbursed and US$167 million repaid. Almost US$550 million, or 60 percent of all loans Belarus received from the World Bank over the last 19 years, were approved in 2009–10. About 30 national programs have received grant financing totaling US$22.8 million.

Investment projects supported by the World Bank’s loans buttress the national programs of improving energy efficiency, water supply quality, waste management, road upgrading, and infrastructure development in Chernobyl-affected areas.

The World Bank analytical and technical assistance program addresses the main challenges and reform priorities. Bank experts have carried out or are carrying out several diagnostic reports on Belarus’s economic growth model, its public finances, and the regulation of its financial markets to lay the foundation for the necessary deepening of structural reforms.

Advisory work on sectoral issues in transport, forestry, water supply, renewable energy, and pension reform has been carried out or is under implementation.

### Active Projects Supported by World Bank Loans

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount (US$ million)</th>
<th>Closing Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Supply and Sanitation Project</td>
<td>60</td>
<td>6/30/2013</td>
</tr>
<tr>
<td>Post Chernobyl Recovery Project</td>
<td>80</td>
<td>12/31/2013</td>
</tr>
<tr>
<td>Road Upgrading and Modernization Project</td>
<td>150</td>
<td>11/30/2014</td>
</tr>
<tr>
<td>Energy Efficiency Project</td>
<td>125</td>
<td>12/31/2014</td>
</tr>
<tr>
<td>Integrated Solid Waste Management Project</td>
<td>42.5</td>
<td>12/30/2016</td>
</tr>
</tbody>
</table>

### KEY ACHIEVED AND EXPECTED RESULTS

The World Bank-supported programs have delivered important development results already in the environment, energy efficiency, and provision of public services. For example, as a result of Bank support, pupils, teachers, doctors, and patients are now receiving upgraded and more reliable utility services in 1,000 social sector buildings in all regions of Belarus.

Other expected results are:

- An upgrade of 53 kilometers of the M5 road located between Minsk and Babrujsk from a two to a four-lane motorway by 2014 will reduce transport costs for road users by 6 percent and save at least seven human lives a year;
- Construction of a modern mechanical waste separation plant in Grodno will prevent burying 20,000 tons of waste in the landfill. A related public awareness campaign will result in the participation of 80 percent of Grodno residents in a waste source separation program by 2016, up from 16 percent before the project;
- Fully 1.7 million people living in 20 districts across the country will be connected to clean and reliable water services by 2013;
- Converting six heat-only district heating plants to combined heat and power plants (with three of the plants based on gas engine technology to be completed in 2012 and one in early 2013) will allow the saving of 90 million cubic meters of natural gas annually by 2014.
INVESTMENT PROJECTS

Post-Chernobyl Recovery

Activities under the Post-Chernobyl Recovery Project directly contribute to improving the livelihood of 300,000 Belarusians residing in three oblasts (provinces), Brest, Gomel, and, Mogiliev, affected by the Chernobyl accident, allowing them to have energy efficient and reliable heat and hot water services and enhancing their ability to pursue a better life. In so doing, the project also addresses global environmental concerns.

The energy efficiency component of the loan reaches 300 schools, hospitals, and kindergartens with improved lighting, heating, window and door replacements, and other energy efficiency measures. Three thousand homes have been connected to a gas system, enabling those households to benefit from an improved, more reliable, and affordable heat supply.

Energy Efficiency

In 2009, a US$125 million loan was provided for improving energy efficiency in heat and power generation. As a result, about 90 megawatts of additional electric capacity based on modern gas turbines and engines are being installed. The efficiency of heat and power generation at the project sites will increase by about 30 percent. It is estimated that about 90 million cubic meters of natural gas will be saved annually, which would lead to the reduction of about 165,000 tons of carbon dioxide emissions per year.

Waste Management

Belarus attaches high priority to environmental protection, particularly to waste management. The Integrated Solid Waste Management Project supports the design, construction, and supervision of a 120,000 ton per year modern mechanical waste separation plant in the city of Grodno, and the improvement of the collection of separate waste in the city. The initiative seeks to recover recyclable materials and includes the implementation of public information and awareness-raising activities.

A project component financed by the Global Environmental Facility aims to ensure environmentally sound management of the destruction of high-priority stockpiles of persistent organic pollutants (POPs), provide secure storage for lower risk stockpiles, and support planning infrastructure to manage the future generation of POPs.

Water Supply and Sanitation

The World Bank is supporting Belarus in increasing the quality of water supply and sanitation services to 1.7 million people living in 20 regions across the country under the Water Supply and Sanitation Project.

The project finances water supply development through the rehabilitation and construction of deep wells, pumping stations, transmission mains, distribution networks, ground and elevated reservoirs, and iron-removal plants.

Transport Infrastructure Development

A US$150 million Road Upgrading and Modernization Project is aimed at developing Belarusian transport infrastructure on a strategic route, the Trans-European Transport Corridor IX, connecting the Black Sea with the Baltic countries. The project finances the reconstruction of existing two-lane road sections between Minsk and Bobrujsk into a modern four-lane motorway, decreasing vehicle operating costs by 6 percent, and the construction of six two-level interchanges, seven overpasses, four bridges, and two pedestrian underpasses. It also envisages the improvement of road safety features in line with European Union (EU) road standards, reducing the number of fatalities from 12 per year in 2010 to five per year by the end of the project, and the implementation of a number of environmental impact management features, such as protective noise barriers in the two villages that are located near the motorway.
ANALYTICAL AND TECHNICAL ASSISTANCE

Economic Policy Dialogue

The Belarus Country Economic Memorandum (CEM), the key analytical product of the Bank, framed the discussion around understanding the sources of growth, assessing the needed economic and structural rebalancing, and identifying the untapped potential for the medium-term economic development of Belarus. The study was publicly presented in July 2012. The report argues that a new growth strategy is needed to address the major challenges the Belarus economy is facing beyond the macroeconomic issue of adequately financing its external imbalances: (i) how to reallocate labor and capital to high productivity segments of the economy; (ii) how to restructure the state-owned enterprise sector; and (iii) how to support the underdeveloped private sector and the services sector.

Fiscal Policy Dialogue

In 2011, the World Bank concluded the first volume of the Programmatic Public Expenditure Review (PER-1), which provides analysis of the general government budget structure and the key sources of fiscal pressure and advice on the fiscal reform options available across priority areas of the budget: pensions, social assistance, housing and communal services, and subsidies in the agriculture sector. The second phase of the review (PER-2) is devoted to options for achieving efficiency gains in the areas of intergovernmental fiscal relations, education, and health spending.

The World Bank also provides technical assistance, training, and key advisory services aimed at strengthening medium-term fiscal planning processes under its Strengthening Accountability and the Fiduciary Environment (SAFE) grant.

Statistical Capacity Building

The macroeconomic and structural challenges facing Belarus are likely to lead to a significant and needed reallocation of resources, including large-scale movements of the labor force. Through its Trust Fund for Statistical Capacity Building (TFSCB) project, the World Bank is supporting an introduction of a regular National Labor Force Survey—a priority area for the development of the country’s statistics—which provides relevant, precise, and complex statistical information on labor conditions, economic activity, employment, and unemployment.

Privatization

The Bank provides technical advice to help the country prepare and test the new case-by-case approach to privatization with support from recognized international financial advisors who would guarantee that privatization leads to the improvement of governance of privatized companies and thus increased productivity and competitiveness. The program is supported by the Federal Ministry of Finance of Austria.

Renewable Energy

Belarus is highly dependent on imported natural gas. Under a Biomass-Based District Heating Program, experts are looking at existing legislation on renewable energy, barriers and options for increased use of biomass energy for heat production, and energy efficiency, as well as opportunities to increase private sector participation in the sector.

Forestry and Agriculture

Belarus is an active participant of the Forest Law Enforcement and Governance (FLEG), an EU-funded, six-country regional program coordinated by the World Bank. The program promotes sound and sustainable forest management practices, including the reduction of illegal forestry activities. Responding to a Government request, the Bank is preparing a Forestry Sector Policy Note to provide strategic advice on defining sector goals and opportunities in conjunction with the development of the Forest Strategic Plan for 2015-2030, which is being supported under the FLEG.

The Agricultural Productivity and Competitiveness policy note emphasized the importance of overcoming agricultural sector distortions and the introduction of a performance-based allocation of resources. A technical assistance program supports agricultural policy institutions in introducing internationally accepted monitoring and evaluation methodologies in agricultural policy formulation.
BELARUS: POST-CHERNOBYL RECOVERY PROJECT AND ADDITIONAL FINANCING

Key Dates:
Approved: April 18, 2006
Effective: August 11, 2006
Closing: December 31, 2013

IBRD financing (million US Dollars)*:

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<tr>
<th>Financier</th>
<th>Amount</th>
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<td>IBRD Loan 7960</td>
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* as of July 23, 2012.
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Two-thirds of the contamination from the Chernobyl power plant disaster fell out in Belarus, affecting one-fifth of the population. About 20 percent of Belarusian territory remains contaminated with long-lived isotopes of cesium above acceptable levels. Twenty years after the Chernobyl accident, there was increased realization in Belarus, and among the international community present in the region, that social and economic development would play an important role in mitigating the effects depressing the quality of life in the affected area.

The Project Development Objective is to provide the population residing in the Chernobyl-affected area with energy efficient and reliable heat and hot water services in order to improve their standard of living. Energy efficiency measures address such immediate problems as (i) replacement of inefficient old boilers and heat distribution systems, (ii) installation of new windows, (iii) improvement of lighting and insulation in social institutions such as schools, hospitals, and orphanages, and (iv) restoration of essential heat and hot water services to social institutions that were receiving less than adequate services. Investments in residential gas connections provide clean and improved space heating to households that were burning wood inside homes with negative environmental and health consequences. The project is being implemented in the three most affected oblasts: Brest, Gomel, and Mogiliev.

Key Achieved and Expected Results:

- As of August 2012, about 170,000 students, teachers, patients, and medical staff have benefited from improved energy efficient services;
- 3,250 individual houses (about 10,000 beneficiaries) previously burning wood inside their homes were connected to reliable gas heating; 181 kilometers of street gas pipeline were installed;
- The implemented measures resulted in annual savings of about 120,000 megawatt hours per year;
- The estimated reduction of CO2 emissions attributed to heat and electricity generation is 29,800 tons per year.

Key Partners: The Bank team has worked closely with the Energy Efficiency Department of the State Standardization Committee responsible for coordination and management of implementation activities on a day-to-day basis, as well as with the Ministry of Energy, and the oblast executive committees.
BELARUS: ENERGY EFFICIENCY PROJECT

Key Dates:
Approved: May 28, 2009
Effective: September 30, 2009
Closing: December 31, 2014

IBRD financing (million US Dollars)*:

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*Source Client Connection as of July 23, 2012.
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Energy import prices have increased in Belarus in recent years. For instance, the natural gas import price from Russia more than doubled in 2007 to US$100 per thousand cubic meters, and further increased to US$150 per thousand cubic meters in 2009. It is projected that the natural gas import price will gradually increase to European market levels. During recent years, Belarus has made significant efforts to reduce energy intensity and improve efficiency. The achieved results are encouraging: energy intensity declined by about 60 percent over the last 15 years, decreasing from about 0.76 tons of oil equivalent per dollar of GDP in the mid-1990s to about 0.32 in 2008. Belarus has adopted several national energy efficiency programs starting in 1996. The aim of the programs is to strengthen energy security through capital investments in asset renovation, efficient utilization of fuel and energy resources, and more extensive use of domestic and renewable sources of energy such as biomass.

The Project Development Objective is to improve energy efficiency in heat and power generation in selected towns in Belarus. The project helps to convert six existing heat-only boiler plants to combined heat and power plants in different locations across Belarus. As a result, about 90 megawatts (MW) of additional electric capacity based on modern combined cycle gas turbines and gas engines will be installed. Furthermore, the efficiency of heat and power generation at the project sites is expected to increase by about 30 percent. It is estimated that about 90 million cubic meters of natural gas will be saved annually, which would lead to the reduction of about 165,000 tons of carbon dioxide per year.

The key indicators of project performance are: reduction of gas consumption and total efficiency of heat and power generation.

Results achieved: The implementation progress is satisfactory at all six project sites, including Borisov (65 MW), Mogilev (15.5 MW), Retchitsa (4 MW), Ruha (2 MW), Oshmiany (2 MW), and Borisov (1 MW). Three of the combined heat and power plants are expected to be commissioned in 2012 and one in February 2013.

Key Partners: The Bank team has worked closely with the Energy Efficiency Department of the State Standardization Committee, as well as with the Ministry of Energy, and the oblast executive committees.
Key dates:
Approved : September 30, 2008
Effective: February 17, 2009
Closing: June 30, 2013

IBRD financing (million US Dollars)*:

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</tr>
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</table>

*Source: Client Connection as of July 23, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Belarus is quite rich in water resources, and those available are sufficient to meet both current and future demands. During the last five years, total water use has declined by 5 percent, while industrial use has fallen by 17 percent, continuing a trend that began in the early 1990s. The reliability and safety of the water and sanitation services are less than satisfactory due to service interruptions, high losses in the distribution systems, substantial operational costs due to aging infrastructure, and the need for maintenance. The population, especially in rural areas using dug wells for water supply, is exposed to health risks.

The Project Development Objective is to improve the quality, efficiency, and sustainability of water supply and wastewater treatment services in six participating oblasts covering about 1.7 million consumers. The objective will be achieved through the rehabilitation and reconstruction of water supply and sanitation facilities and networks, including the adoption of advanced technologies for water treatment.

The project complements the Government’s National Water Development Program “Chistaya Voda” (Clean Water) and contributes to innovation, modernization, and capacity development in the Belarus water sector.

Key Achieved and Expected Results:

The project finances the rehabilitation and construction of deep wells, pumping stations, transmission mains, distribution networks, ground and elevated reservoirs, and iron-removal plants. It also supports the rehabilitation of the wastewater collection system and treatment plants, including the installation of pumping stations, sludge dewatering systems, collection networks, monitoring stations, and small laboratories to test treated wastewater.

Works are completed in six sites and are ongoing in five others, out of a total of 20 subprojects. Completed works are in general of good quality and delivered the expected outcomes.

Key Partners:

The Bank team works closely with (i) the Ministry of Housing and Utilities of Belarus; (ii) Ministry of Finance; and (iii) the six participating oblasts and vodokanals (water and wastewater utilities).
Belarus attaches high priority to environmental protection, particularly to waste management issues. Laws governing the sector include the 2005 Law on Sanitary and Epidemiological Safety of the Population, the 2006 Law on Environmental Protection, and the 2008 Law on Waste Management. The National Action Plan for Natural Resource Management and Environmental Protection (2006–2010) and the Municipal Waste Management Program (2007–2010) apply general principles consistent with EU Directives and Belarus’ international obligations. Specific objectives are to: (i) ensure 100 percent coverage of separated municipal waste collection in large cities and maximize recovery of valuable materials; and (ii) practice environmentally sound management (ESM) of high-priority chemical pollutants, specifically persistent organic pollutants (POPs).

The Project Development Objective (PDO) is twofold: (i) to increase the environmental benefits of integrated solid waste management in the city of Grodno by recovering and reusing recyclable materials; and (ii) to strengthen national capacity to manage hazardous wastes associated with POPs and reduce environmental and health risks associated with the presence and release of POPs in global and local environments. PDO outcome indicators for solid waste management components are: (a) reduce waste volumes for landfill disposal; and (b) reuse valuable recycled materials efficiently. For the Global Environmental Facility (GEF)-financed POPs component, and linked to the project development objective and global objectives of reducing environmental and health risks associated with POPs stockpiles, the indicators are: (i) the secure capture and storage of existing and future POPs stockpiles; and (ii) the environmentally sound elimination of priority POPs stockpiles.

Key Achieved and Expected Results: The project supports the design, construction, and supervision of a 120,000 ton per year modern mechanical waste separation plant in the city of Grodno, and the improvement of the collection of separate waste in the city. The initiative seeks to recover recyclable materials and includes the implementation of public information and awareness-raising activities. The technical design is still underway and the main share of project funds will be committed upon completion of the tender for the supply and installation contract for the Mechanical Waste Separation Facility in Grodno.

The GEF-financed component strengthens the national capacity to manage hazardous wastes, specifically those associated with POPs, and supports Belarus in meeting its obligations under the Stockholm Convention on POPs. Grant activities aim to ensure the environmentally sound management of the destruction of high-priority stockpiles of POPs and associated contaminated equipment, provide secure storage for lower-risk stockpiles, and support planning infrastructure to manage the future generation of POPs. The targeted elimination of 1,800 tons of POPs stockpiles was completed in June 2012. Due to the substantial increase in the quantity of POPs waste dealt with under the project, the final elimination of the Slonim landfill, having over 50 percent of Belarus’ DDT (Dichlorodiphenyltrichloroethane), relies on additional co-financing allocated by the Government.

Key Partners: (i) the Ministry of Housing and Communal Services of Belarus, which is responsible for the setting up and implementation of solid waste management policy; and (ii) the oblast and municipal/city governments of Grodno; and (iii) the Ministry of Natural Resources and Environment.
BELARUS: ROAD UPGRADING AND MODERNIZATION PROJECT

Key Dates:
Approved: November 11, 2010
Effective: July 5, 2011
Closing: November 30, 2014

IBRD financing in million US Dollars*
*Source: Client Connection as of July 23, 2012.

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<thead>
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<td>IBRD Loan</td>
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<td>29.4</td>
<td>120.6</td>
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</table>

The Project is part of the Government’s National Transport Development Program “Roads of Belarus” for the period 2006–15. Among the objectives of the program are the creation of an enabling environment for the development of the national economy, enhancement of road safety, implementation of the Government’s social policy, and facilitation of its private sector business initiative. The overall program includes the construction of four-lane motorways between Minsk and all five oblast capitals. In addition, the Government envisages relying increasingly on revenues from road tolling for the funding of road maintenance and further upgrading of the road network.

The Project Development Objective is to reduce transport costs for road users on the upgraded sections of the M5 road, and introduce electronic tolling in Belarus as an efficient cost recovery mechanism. There are three components to the project. The first component is upgrading 53 kilometers of the M5 road located between Minsk and Bobrujsk from a two to a four-lane road. The second component is modernization of the road tolling system. This component will include the supply and installation of a modern electronic road tolling system based on microwave technology on a 109-kilometer section (from km 22 to km 131) of the M5 road between Minsk and Bobrujsk. The third component is technical assistance and capacity building, which is aimed at strengthening the institutional capacity of road sector institutions in Belarus and helping them to converge toward European standards and methods.

Key Achieved and Expected Results: 52.7 kilometers of the M5 road sections will be upgraded by 2014. Apart from reconstructing the existing two lanes and the construction of two additional lanes to carry a design axle load of 11.5 tons, it is planned to construct six two-level interchanges, seven overpasses, four bridges, and two pedestrian underpasses and bypasses at the village of Sosnovy (about 5.7 kilometers long) and at the village of Boyary (about 4.2 kilometers), where the alignment will be shifted in order to increase the distance between the road and the nearest houses. Several indicators on the upgraded sections of the road are expected to be reduced by the end of the project: (i) vehicle operating costs to decrease by 6 percent; (ii) the riding quality measured by IRI (International Roughness Index) from 3.2 in 2010 to less than 2 in 2014; and (iii) the number of fatalities from 12 per year in 2010 to 5 per year by the end of the project.

The key road-upgrading activities are well advanced. The Government signed a concession contract for the construction of an electronic state-of-the-art road tolling system for trucks on all of the most important roads of Belarus, and for its 20-year operation. The electronic tolling component as originally designed therefore became obsolete. The options for a potential redesign are now being discussed with the counterparts.

Key Partners: (i) Ministry of Transport, (ii) Department Belavtodor, and (iii) RUE Minskavtodor-Center.